



State of Arizona  
Department of Education

**Tom Horne**  
Superintendent of  
Public Instruction

CN# 21-09  
USDA: FD-080

MEMORANDUM

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**To:** School Health & Nutrition Program Sponsors

**From:** Mary Szafranski, Deputy Associate Superintendent  
Arizona Department of Education, Health & Nutrition Unit

Tina Herzog, Food Distribution Program Director  
Arizona Department of Education, Health & Nutrition Unit

Nicholas Dunford, Financial Services Director  
Arizona Department of Education, Health & Nutrition Unit

**Date:** April 10, 2009

**RE:** Clarification of Requirements in the FSMC Final Rule (Revised)

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*Original Signed*

The purpose of this policy memorandum is to clarify requirements in 7 CFR Part 250 established in the final rule, "Management of Donated Foods in the Child Nutrition Programs, the Nutrition Services Incentive Program, and Charitable Institutions" (the FSMC final rule), which was published in the Federal Register on August 8, 2008. The memorandum utilizes a Q & A format, and includes questions and input submitted by FNS Regional Offices and outside parties. This policy memorandum revised the original FD-080, which was dated November 17, 2008, to include responses to additional questions submitted by FNS Regional Office and outside parties.

***Implementation***

**Q1. If FSMC contracts were just re-bid for SY2009 (i.e., the school year that extends from July 1, 2008 to June 30, 2009) in accordance with the implementation schedule in the final rule, "Procurement Requirements for the National School Lunch, School Breakfast, and Special Milk Programs" (as published in the Federal Register on October 31, 2007), must they be re-bid again for SY 2010 to comply with the implementation schedule in the FSMC final rule?**

A. Local Education Agencies (LEA) must re-bid contracts expiring at the end of SY 2009 (i.e. in June 2009), except in the following cases:

- 1) The contract already includes provisions relating to crediting for and use of donated foods, the method of determining the value of donated foods used in crediting, and recordkeeping requirements, that ensure compliance with the requirements of the final rule; or
- 2) The contract has an annual renewal provision that would permit it, with ADE approval to extend the contract for one more 12-month period (i.e., through SY 2010).

### ***Crediting and Value of Donated Foods***

**Q2. It is our understanding the FSMC will be required to credit the LEA for donated foods when they are RECEIVED in the LEA for use. Is that correct? Historically, credit for donated foods has been based on usage, not when received. Will the FSMC still be permitted to credit donated foods when used or only when received?**

A. In accordance with the new regulations in 250.51(a), the FSMC must credit the LEA for the value of all donated foods received for use in the school food service in the school year, whether the donated foods are used in that year or not.

**Q3. In accordance with 250.51(a), the FSMC must credit the LEA for the value of all donated foods received for use in the food service in a school year, as provided in its contract. However, when is a donated food considered “received”? Is it when the donated food arrives at the school kitchen or storage facility? Or, is it when it arrives at an ADE storage facility, or at a processor facility, and is credited to the LEA entitlement?**

A. Donated foods that will be used by the FSMC as part of its contract with the LEA are considered “received” when the foods arrive at the school kitchen, or the LEA or FSMC storage facility, in either raw form or in processed end products. The fact that ADE may credit the LEA entitlement as a different time—e.g., upon delivery of the donated foods to a processor’s facility—is not directly related to the crediting requirement imposed on the FSMC in 250.51(a).

**Q4. Must the FSMC credit the LEA for the value of the donated foods used in activities outside of the meal service—e.g., for donated foods used in training or educational activities?**

A. The FSMC must credit the LEA for the value of donated foods used in activities outside of the meal services if its contract with the LEA required such crediting, or if the contract requires the FSMC to perform such activities as part of its food service.

**Q5. What are the requirements for the FSMC in crediting the LEA for the value of donated foods (250.51(a)) in the following situations?**

**(1) When the FSMC procures end products from a processor on behalf of the LEA on a fee-for-service basis.**

A. The FSMC must credit the LEA for the value of donated foods contained in end products that the FSMC procures from a processor on behalf of the LEA, in accordance with 250.51(a), regardless of the method of sales used in its procurement. The specific method of crediting utilized, which may be by invoice reductions, discounts, refunds, or another means, (in accordance with 250.51(b)), must be indicated in the LEA's contract with the FSMC (in accordance with 250.53(a)(2)). The method utilized may depend on the type of contract: e.g., in a cost-reimbursable contract, the FSMC may simply bill the LEA for its food purchases and disclose, in its billing, the savings resulting from donated foods contained in its purchase of processed end products. If such purchase was made on a fee-for-service basis, indication of such method of purchase in its billing would provide the required disclosure, since, by definition, the fee-for-service excludes the donated food value in the fee charged. Crediting for donated foods in processed end products must be at the processing agreement value (250.50(d)), in accordance with the distributing agency's State Participation Agreement of, State Processing Agreement with the processor. All methods of crediting must provide clear documentation of the value received by the LEA for the donated foods in such end products (250.51(b)).

**(2) When the FSMC procures end products from a processor on behalf of the LEA under a rebate system.**

A. Same answer as above. However, it should be noted that, in a cost-reimbursable contract, as described above, the FSMC must remit the rebate or refund the LEA, or otherwise credit the LEA for the value of donated foods in the end products it purchases from the processor and charges to the LEA at the commercial, or gross, price.

**(3) When the LEA procures end products from the processor and provides them to the FSMC to use in the school food service.**

A. The FSMC is not required to credit the LEA for the value of donated foods in end products that the LEA procures from the processor and provides to the FSMC for use in the school food service—unless, in accordance with this contract, the FSMC acts as an intermediary between the processor and LEA in passing along the donated food value (e.g., in receiving the refunds from the processor and remitting them to the LEA) (250.51(a)). The processor must credit the LEA for the donated food value in end products procured by the LEA, in accordance with processing requirements in Subpart C of Part 250. The LEA must ensure that the FSMC uses such end products in the school food service, in accordance with 250.51(d). It also must ensure that the FSMC does not charge it for such end products, and may choose to include a provision on its contract to assure this (as it might choose to do for other foods the LEA has procured and provided to the FSMC for use in the food service).

**Q6. Please clarify the requirements for the FSMC in crediting the LEA for the value of donated foods in a cost-reimbursable contract.**

A. In a cost-reimbursable contract, the FSMC bills the LEA for the cost of foods drawn from its inventories for the billing period. Such inventories would include both purchased and donated foods. However, the FSMC must ensure that the LEA is not charged for donated foods received for this period. The value of such donated foods represents a savings to the LEA, and the FSMC

must disclose such savings to the LEA in its invoice for the billing period—i.e., provide “credit by disclosure” for donated food value (250.51(b)). For example, if the FSMC uses 6 cases of string beans from inventory, and received 4 cases of donated string beans in that period, its invoice must show a charge for only 2 cases of string beans. An example of such “crediting by disclosure” on the invoice is included below:

Beginning Inventory	8 cases of string beans (\$2,000 value)
Donated Foods Received	4 cases of string beans (\$1,000 value)
Foods Used	6 cases of string beans (\$1,500 value)
Ending Inventory	6 cases of string beans (\$1,500 value)
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Amount Billed	2 cases of string beans (\$500)

The LEA must ensure, at the required annual reconciliation (250.54(c)), that the FSMC has credited it for the value of all donated foods received during the school year. If, during this review, the LEA determines that the FSMC has not provided a credit for all such donated foods by the method indicated above, it must ensure that the FSMC makes a payment to it for the value of those donated foods for which it has not been credited.

It should be also noted that crediting must include the value of all donated foods contained in processed end products purchased by the FSMC for the LEA’s food service. Such end products should be included separately on the invoice, in order to clearly “disclose” the value received from the donated foods contained in them—e.g., through the discounted price, or through fee-for-service (which, by definition, excludes the donated food value). If the FSMC purchases such end products from the processor at the commercial or gross price and receives a rebate or refund from the processor for the value of donated foods in the end product, it must remit the rebate or refund to the LEA, or otherwise disclose its crediting for such donated foods on its invoice.

**Q7. It is our understanding that under cost-reimbursable contracts, the LEA can specify the frequency with which they will receive credit for commodities and that frequency can be as little as one time per year. Is that correct?**

A. Yes, that is correct for both cost-reimbursable and fixed-price contracts.

**Q8. Please clarify/provide examples of the requirements in 250.51(b) for the recipient agency to ensure that the specified method of valuation of donated foods permits crediting to be achieved in the required time period.**

A. For example, since crediting for donated food value must be achieved at least annually (as permitted in 250.51(b)), the method of valuation may not use an average price for that food for a period of time extending beyond the current school year.

**Q9. In crediting the LEA for the value of donated foods received for use in the school food service, the FSMC must use the same value established by the distributing agency in crediting the LEA's entitlement (i.e., one of the three options in 250.58(e)), unless the distributing agency approve an LEA's alternate means of establishing such value (250.51(c)). However, can the distributing agency prohibit the use of "donated food values determined by an alternate means of the recipient agency's choosing" (250.51(c)) – and simply require that all recipient agencies use the donated food values determined by the distributing agency in accordance with 250.58(e)?**

A. Yes, the distributing agency may require recipient agencies to use the donated food values established by the distributing agency, in accordance with 250.58(e), and may prohibit the use of alternate values.

#### *Use of Donated Foods*

**Q10. The requirement in 250.50(a) for the contract to "ensure that all donated foods received for use by the recipient agency for the school or fiscal year are used in the recipient agency's food service" (emphasis added) doesn't acknowledge that 250.51(d) and 250.53(a)(6) provide for substitution of donated foods.**

A. That is correct. In the third Part 250 rule, USDA will amend 250.50(a) to clarify that the contract must ensure the use of donated foods or, as permitted in 250.51(d), the use of commercial substitutes of the same generic identity, of U.S. origin, and of equal or better quality in place of donated foods.

**Q11. If, in accordance with 250.50(a), the "other requirements of this subpart" are not applicable to non-child nutrition program recipient agencies (e.g., charitable institutions), what are the specific requirements that do apply to such agencies?**

A. Other recipient agencies must simply ensure, in their contracts with an FSMC, that all donated foods are used in the recipient agency's food service (e.g., as indicated in 250.67(c) for charitable institutions), and are not subject to the other requirements in Subpart D of Part 250.

**Q12. Who is responsible for ensuring, in accordance with the requirements in 250.51(d), that commercially purchased foods used in the LEA's food service in place of donated foods are "of the same generic identity, of U.S. origin, and of equal or better quality" than the donated foods?**

A. The LEA must ensure that commercially purchased foods used in place of donated foods are of the same generic identity, of U.S. origin, and of equal or better quality than the donated foods (in accordance with 250.51(d), in the course of its monitoring of the FSMC food service, as required in 210.16(a).

**Q13. Will the provision in 250.51 (d) requiring the use of donated ground beef and donated ground pork without substitution be changed upon publication of the Processing final rule to mirror the full substitution policy expected in the rule?**

A. No, because, unlike processors, FSMCs are not subject to the grading requirements that ensure substitution of donated foods with commercial foods of equal or better quality than the donated foods.

**Q14. Does the LEA retain title of donated foods that are provided to the FSMC for use in the school food service?**

A. Yes, the LEA retains title to donated foods provided to the FSMC for use in the school food service.

**Q15. If credit for donated foods is provided upon receipt, does this mean that the FSMC owns the donated foods until they are used in the school food service program?**

A. It is not accurate to say the FSMC “owns” the donated foods, since ownership implies that the FSMC is free to use them as they please. The FSMC must “manage” the donated foods to ensure that they are used in the LEA food service, or that commercial substitutes of the same generic identity, of U.S. origin, and of equal or better quality are used in their place (except the donated ground beef and ground pork, and all processed end products must be used without substitution). When commercial substitutes are used in place of donated foods, the FSMC may then use the donated foods without restriction.

**Q16. May FSMCs sell on the open market donated foods that have been substituted with commercially purchased foods (in accordance with the substitution option in 250.51(d))?**

A. FSMCs are not prohibited from selling donated foods that have been substituted with commercially purchased foods (in accordance with 250.51(d)) on the open market.

**Q17. Please clarify if the requirement in 250.51(d) to “use all donated ground beef, donated ground pork, and all processed end products, in the recipient agency’s food service” (emphasis added) refers only to processed end products produced under the State Participation Agreement/processing program – or also to further processed items made available by USDA, such as chicken fajita strips and turkey taco filling.**

A. In accordance with the definitions of “end product” and “processing” in 250.30, “processed end product” refers to a product containing donated food processed by a commercial processor in accordance with Subpart C of Part 250, and does not include donated food provided by USDA in a processed form (which would simply be another type of donated food).

**Q18. Can the FSMC send donated foods to a processor for processing into end products for use in the LEA's food service?**

A. The FSMC may, in accordance with its contract with the LEA, procure end products processed from donated foods that the LEA orders for delivery to a processor that has a State Processing Agreement or State Participation Agreement, as required in Subpart C of Part 250. The FSMC may also be involved in the ordering of such donated foods, in coordination of the LEA, as part of its management of the food service (in accordance with 250.50(d)(2)). The FSMC must credit the LEA for the value of donated foods in such process end products at the processing agreement value (i.e., in accordance with the distributing agency's agreement with the processor).

The FSMC may also send donated foods (or other foods) from the LEA's storage facility to a processor for processing into end products for use in the LEA's food service, in accordance with its contract with the LEA. The FSMC must credit the LEA for the value of such donated foods in accordance with 250.51, and with the method of valuation established in its contract with the LEA, in accordance with 250.53. However, such donated foods are not subject to the processing requirement in Subpart C of Part 250.

***Storage and Inventory Management***

**Q19. What happens to existing, or slow-moving, donated food inventory carried over from a previous contract, some of which may already have exceeded the best-if-used-by date, or with donated food inventory that cannot be efficiently utilized in the LEA food service?**

A. The FSMC must use all donated foods and processed end products in inventory carried over from a previous contract in the school food service, unless the LEA determines that such foods are out-of-condition, in which case they must not be used.

**Q20. Is the State distributing agency required to initiate a claim against the LEA or against the FSMC conducting the food service on behalf of the LEA, for donated foods that go out-of-condition as a result of inadequate storage procedures?**

A. No. The LEA, or the FSMC conducting the food service on behalf of the LEA may commingle donated foods with other foods purchased for the school food service, in a single inventory management system (in accordance with 250.52(b) and 250.59(c)). Under such a system, it is difficult to distinguish donated foods from other foods, and all foods are managed in a like manner. In accordance with 210.13(c), the LEA must ensure that facilities for the handling, storage, and distribution of purchased and donated foods are such as to properly safeguard against theft, spoilage, and other loss.

However, in accordance with 250.51(a), the FSMC must credit the LEA for the value of all donated foods received for use in the LEA's food service in a school year, irrespective of the actual use of the foods. Hence, the value of all donated foods received by the LEA will have accrued to the nonprofit school food service, even if such foods became out-of-condition and were not used. This is also true of a cost-reimbursable contract, in which the FSMC must

disclose, on its invoice, the savings resulting from donated foods, or otherwise credit the LEA for the value of such foods, even if they were not used (as indicated in the answer to Q6).

**Q21. Must the LEA provide reimbursement to the FSMC for the value of donated foods that go out-of-condition, or for donated foods that are subject to a recall and are not replaced?**

A. No. As indicated in the answer to Q20, donated foods and other foods may be commingled in a single inventory management system and all foods managed in a like manner. In most cases, such inventory management will be the responsibility of the FSMC. However, if the contract indicates that the LEA is responsible for the storage and inventory management, the contract may also provide for reimbursement to the FSMC for donated foods that go out-of-condition and for which the FSMC has already credited the LEA. This would also apply to donated foods that are subject to a recall and are not replaced, and for which the FSMC has already credited the LEA.

**Q22. Is it correct that the FSMC may continue to manage donated food inventories separate from other foods if it works best for the FSMC and continues to ensure that appropriate credit is given to the LEA?**

A. Yes, that is correct.

**Q23. In accordance with 250.51(d), the FSMC must use all donated ground beef and ground pork, and all processed end products, in the school food service, and may not use like commercial substitutes in their place. How would this work in a single inventory management system?**

A. The FSMC must have a means of separately identifying such donated foods and end products, through their inventory recordkeeping system, or through marking on the cases or packages of the donated foods, in order to ensure their use in the school food service.

**Q24. In cost-reimbursable contracts, must the LEA ensure that the FSMC does not charge it for commercially purchased foods substituted for donated foods?**

A. Yes. In accordance with 250.52(b), the FSMC, under its cost-reimbursable contract, must ensure that its system of inventory management does not result in the LEA being charged for donated foods. This requirement also applies to commercially purchased foods substituted for donated foods. The LEA must ensure FSMC compliance with this requirement in the course of its required monitoring of the FSMC food service, in accordance with 210.16(a), and in the annual reconciliation required in 250.54(c).

**Q25. May donated foods be transferred from one LEA to another LEA? Must crediting for the value of such donated foods also transferred?**

A. Yes, donated foods may be transferred from one LEA to another LEA. Under single inventory management, donated foods are commingled with purchased foods, and all foods are



managed in a like manner. Hence, the LEA may transfer donated foods, as they would other foods, to another LEA, or may permit the FSMC to do so, without FNS approval. The FSMC must credit the LEA that originally ordered and received the donated foods, even if they end up being used by another LEA. The LEA receiving the transferred foods need not be credited.

### ***Termination of Contract***

**Q26. Is the LEA required to refund any credit already received to the FSMC for donated foods that remain with the LEA at termination of a contract? If they are not required to refund any credit, how will those donated foods be handled when they are turned over to the “successor” FSMC? It would not seem appropriate that the successor FSMC must also provide credit for the value of such donated foods. What are the requirements for the successor FSMC?**

A. The LEA may not refund any credit to the FSMC for the value of any donated foods that remain unused when a contract terminates, and is not extended or renewed. The “successor” FSMC must ensure use of such donated foods in the LEA food service, but would not have to credit the LEA for the value of such donated foods, as that value would already have accrued to the school food service.

**Q27. Does the FSMC have to credit the LEA for existing donated food inventory carried over from a previous contract that operated under the old rules (i.e., in which the value of donated foods was usually credited as the foods were used rather than received)? If so, at what value must such donated foods be credited? What about such donated foods that are determined to be out-of-condition?**

A. The FSMC must credit the LEA for the value of donated foods carried over from a previous contract if the value of such foods has not already accrued to the school food service (i.e., if the value was not credited to the LEA by the previous FSMC). The value used to credit the LEA for such donated foods must be the value determined in accordance with 250.51(c). However, the FSMC is not required to credit the LEA for the value of such donated foods that are determined to be out-of-condition, and the LEA must ensure that such out-of-condition foods are not used in the school food service.

**Q28. Must the FSMC return other unused donated foods, in addition to unused donated ground beef, ground pork, and processed end products, when a contract terminates, and is not extended or renewed? If so, is the LEA required to refund any credit received to the FSMC for such returned donated foods?**

A. When the contract terminates, and is not extended or renewed, the FSMC must return unused donated ground beef, ground pork, and all processed end products, and must return other unused donated foods at the discretion of the LEA (i.e., in accordance with the contract). As indicated in the answer to Q20, the LEA may not refund any credit received to the FSMC for the value of any donated foods that remain unused when the contract terminates and is not extended or renewed.

### ***Contract Provisions***

#### **Q29. Please clarify the meaning of contract provisions (5) and (6) in 250.53 (a).**

A. The contract must ensure that donated ground beef and ground pork are used without substitution because USDA specifications for those products include more stringent standards for exclusion of microbial pathogens than like commercial products. The contract must ensure that all processed end products are used without substitution because the LEA should receive the turkey sausage (for example) procured and not another product that may be of inferior quality. The contract must ensure use of all donated foods or commercial substitutes of the same generic identity, of U.S. origin, and of equal or better quality than the donated foods.

### ***Records and Reviews***

#### **Q30. What documentation would the LEA use to verify receipt of donated foods in its annual reconciliation (as required in 250.54(c))? In some situations, would it have to rely on FSMC records of receipt to ensure that the FSMC has credited it for all donated foods received in the school year?**

A. If the FSMC is responsible for receiving shipments on behalf of the LEA, and retaining records of receipt of donated foods and end products (in accordance with 250.54(b)), the LEA should verify delivery of donated food shipments by contacting ADE or the processor and should not rely solely on the FSMC records.

### ***Food Service Management Companies and Processors***

#### **Q31. In accordance with the definitions of “processor” and “processing” in 250.3, a commercial enterprise that uses donated foods to prepare meals at a commercial facility is considered a processor, and is subject to the processing requirements in Subpart C of Part 250. Does this apply, for example, to a commercial enterprise that prepares meals at its commercial facility for a charter school or other small school that does not have its own kitchen facilities?**

A. Yes. The processing requirements ensure that LEAs receive the full benefit and value of the donated foods sent to such commercial enterprises for processing into end products, or in the preparation of meals, at their commercial facilities. Such requirements include, for example, the submission of end product data schedules for approval, submission of monthly performance reports, and obtaining the services of a USDA grader to ensure that the processing of donated beef, pork, and poultry meets substitution and yield requirements. A processor must have a State Processing Agreement or State Participation Agreement with State distributing agency. As a result, it may be more feasible for small schools without kitchen facilities to enter into agreements with other LEAs to receive donated foods, and to provide the meal service, on their behalf.

*Ordering and Use of Donated Foods by LEAs*

**Q32. In accordance with 250.58(a), before submitting orders for donated foods to FNS, the distributing agency must ensure that all LEAs are aware of the full list of available donated foods, and have the opportunity to provide input at least annually in determining the donated foods from the full list that are made available to them for ordering or selection. Can the requirement for all LEAs to have the opportunity to provide input be met through the use of State Advisory Council or similar group whose members represent LEAs throughout the State?**

A. Yes. However, the distributing agency must use another means of soliciting input if, through LEA input or other means, it is determined that such a State Advisory Council or other group is not effectively representing all LEAs.

**Q33. 250.60 incorporates Policy Memo FD-060 (Use of Donated Foods in NSLP and Other Child Nutrition Programs) almost verbatim. Will that policy memo be rescinded now that the policy has been incorporated in Part 250?**

A. This policy memo has been rescinded, as its provisions are now included in 250.60.

If you have any questions or concerns regarding this memo, please contact the Health & Nutrition, Food Distribution Program Director, Tina Herzog at 602-542-8781 or email at [Tina.Herzog@azed.gov](mailto:Tina.Herzog@azed.gov). If you have any questions regarding this memo about Food Service Management Company Contracts, you may contact Contracts Management Officer, Ellen Pimental at (602) 542-6208 or email at [Ellen.pimental@azed.gov](mailto:Ellen.pimental@azed.gov).